C&C YACHTS

ANNUAL REPORT
1979

President's Report to the Shareholders

We entered the year past, our 10th of combined operations, with certain concerns.

We closed it having strengthened our balance sheet, increased North American sales by 32%, and generated earnings of 67¢ per share from ongoing operations.

We enter the new fiscal year with low finished product inventories, with busy plants, and with order backlogs well in excess of any enjoyed previously.

The changes which occurred necessitated restatement of the 1978 figures for comparability, as manufacturing operations in Europe were discontinued, and our equity base was broadened with a private placement in July of 350,000 shares.

The North American operating results reported herein surpass those of any prior year.

Marketing

Consolidated sales increased to $26.2 Million as the trends of a year ago continued, particularly in the U.S.A.

Two key factors characterized the North American auxiliary sailboat market during the past year. Although the market showed virtually zero growth in total units, dollar growth exceeded inflation as there was a pronounced shift from sales of smaller boats to larger units, these being defined as 30 feet in length and over. As this trend developed, the C&C 40 was moved from limited production in the Custom plant to full production in Niagara. The new Landfall 38 was introduced into the market from our Rhode Island facility, and work began there on a new large cruising boat, the Landfall 48.

A concerted research and development program focused on concerns of functional and perceived quality with developments which also provided substantial improvements to existing models, notably C&C 27 and C&C 30 which enjoyed a banner sales year.

The combined effect of these and other product line changes resulted in growth in our share of the large boat market, which share almost doubled over the 12 months. Our products continue to command premium prices and further improvement in margins was accomplished, aided by stabilization of the Canadian dollar at about 85¢ U.S. Canadian export sales in particular benefited as they increased 52% from $8,475,000 to $12,884,000, largely from our major production facility in Niagara.

Changes in our sales and marketing organization initiated in fiscal year 1978 gave maximum support this year to a strong and vigorous dealer network now totalling 70 outlets in the U.S.A. and Canada. New merchandising, advertising, and wholesale financing programs were oriented towards maximum point-of-purchase support and bore fruit in the dealer network at large and particularly with several new dealers in areas where representation had been weak.

A new quarterly pricing policy initiated over a year ago served to protect both this company and our customers against unpleasant surprises, and has been continued.

The Custom and International Sales Department formed last year successfully competed for several major projects. C&C entry into the highly competitive Caribbean charter market had been accomplished in the prior year. Relationships had been established which led to a high level of ongoing business and further sales this fall. The range of market activity in "big ticket yachts" first evidenced itself at our Custom plant in Oakville as mid-summer orders rapidly extended delivery dates almost a year to fall 1980. Notable is the size of yachts on order: a Custom 63 and 67, four 43-foot racer/cruisers, and several "state of the art" racing yachts for international competition.

The export of C&C production product to Europe continued during 1979, and for the first time several sales were accomplished to South American buyers. Marketing opportunities continue to emerge as international awareness increases of Canada's improved competitiveness as a supplier to foreign markets.

Throughout the year, and particularly in the last half, levels of retail sales and dealer inventories were closely monitored to discern early effects of high interest rates. Low year-end inventories, both our own and those of our dealers, continued through the fall with unabated demand for our products which are perceived as premium priced but representing superior value and with long term investment potential.

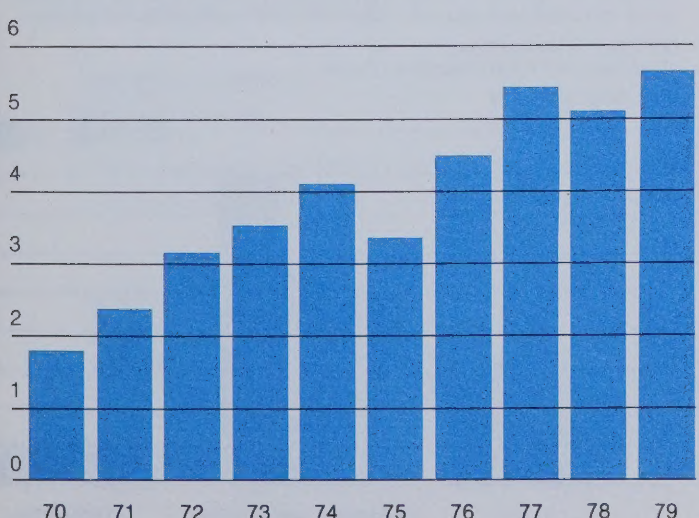
Manufacturing

A strong third quarter this year with high sales and resulting low inventories plus continued demand for C&C product resulted in maximum capacity levels of operation throughout the summer and fall.

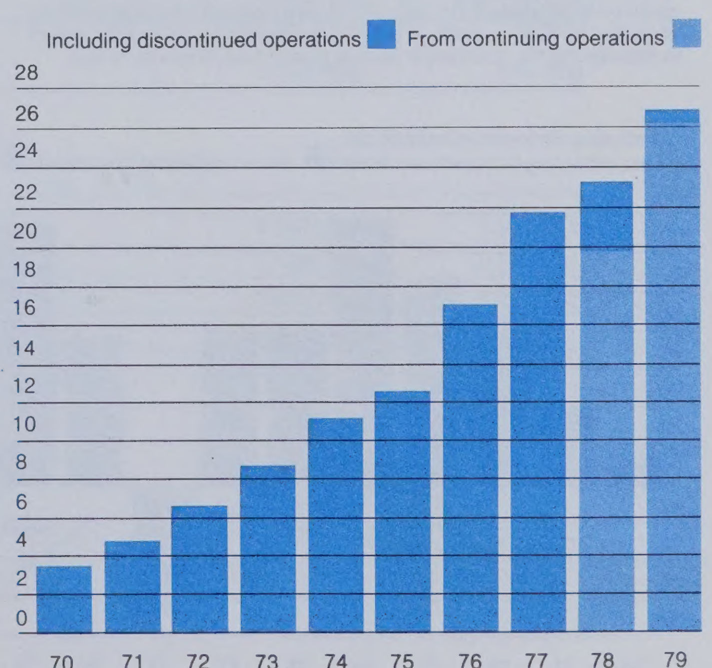
NIAGARA-ON-THE-LAKE, our largest facility, exceeded the previous year's output by 8%, as four million pounds of product was completed. Employing 200 hourly workers, 410 boats were produced to continuing high standards. Despite plant under-utilization in the first quarter, all five lines ran through the balance of the year without interruption other than for introduction of the new C&C 40.

Good labour relations continue to be enjoyed and agreement on a new two-year contract with the United Brotherhood of Carpenters and Joiners of America was achieved, assuring continuance of our highly skilled and efficient labour force through July 31, 1981.

RHODE ISLAND began this year operating on one line, having been the source of our smaller boats and therefore the victim of this weakened sector of the market. New product planning was introduced with the development of Landfall 38 on schedule in April, and continued at one per week throughout the year, ending with a healthy backlog. Landfall 42 was transferred from Custom shop which served as an introduction for the new Landfall 48 developed this fall, the first three units destined for charter work in the South. With two of the three lines occupied by the Landfall series of cruising yachts, and a third committed to C&C 24, Mega, and C&C 29, high levels of continuing production for the next 12 months are anticipated. Employment at Rhode Island plant has peaked at approximately 100, and centralized functions of quality, purchasing, and engineering are in place to ensure the high standard of quality throughout our manufacturing operations.



Sales of Manufactured Yachts (millions of pounds)



Dollar Sales ($ Million)

CUSTOM plant at Oakville enjoyed another diversified and busy year. Mid-summer saw the beginning of a rapid buildup in backlog, enabling the transfer of Landfall 42 and C&C 40 to production plants. Delivery of products ordered extends beyond mid-1980. Units presently under construction include a 63-foot sloop and a 67-foot schooner destined for serious offshore cruising. Construction through the year included 12 Custom C&C 40s, several one-off yachts, and a heavy displacement 41-foot diesel commercial fishing boat. Expansion of the staff by 10% has taken place and the shop is currently experiencing more activity than it has for many years.

With the encouragement of the last two years and the promise of high plant utilization in the future, the very satisfactory improvement in company margins is expected to continue as fixed expenses are fully absorbed. Better quality and control procedures will further improve acceptance and profitability.

Financial

As interest rates escalated, the cost of short term financing more than doubled to $373,000 compared with $175,000 in 1978. In anticipation of future needs, an issue of 350,000 shares was privately placed with five investors during July, providing $1,102,000 to the treasury. These proceeds were applied to our bank indebtedness and, coupled with the lower inventory levels which are expected to continue, will greatly reduce our winter borrowing levels which normally peak during February and early March. Early in the year and prior to its maturity, we renegotiated the mortgage on our Canadian properties and extended the term at a reduced interest rate.

Foreign exchange losses of $63,000 were incurred due to maturing foreign currency loans and a decline in value of our U.S. assets.

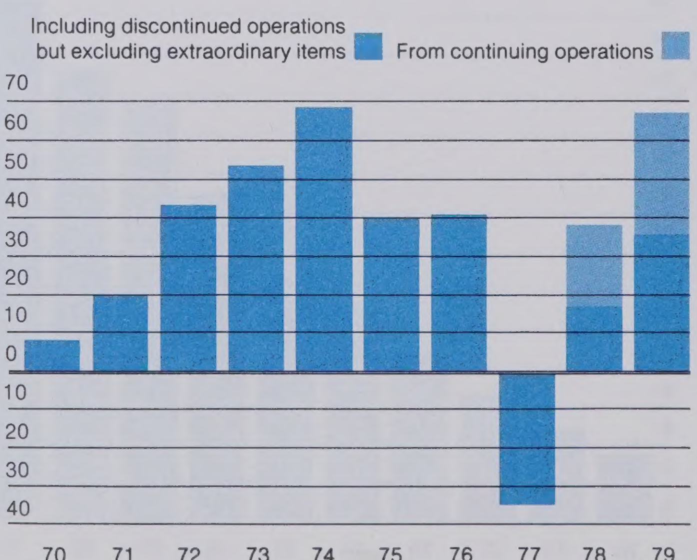
Although finished product inventories were substantially reduced as has been noted, inventory of yachts in process was higher due to heavier volume of production. Deposits from customers were at unusually high levels due to the several large custom yachts under construction.

Development

Reference has been made to Landfall 48, the largest and most luxurious yacht we have ever placed in series production. This program was accomplished on schedule and advances several on-going development projects which have been receiving intense study, including improved lighting and ventilation, reduced usage of high-priced materials in tenuous supply such as teak, and introduction of a highly efficient system of interior construction which heightens perception of quality while conserving materials and labour.

The physical development of this yacht took place entirely in our Rhode Island plant from major tooling components exported from Canada, which evidences the maturity which the Rhode Island facility has now attained.

The effects of such imaginative work by our development personnel continue to be evident throughout our entire product line and serve to enhance the C&C position of industry leadership and play a large part in maintaining the good order backlogs which we presently enjoy.



Earnings (loss) (¢/Share)

Europe

As the relationship of the Deutsche mark to the Canadian dollar firmed at about 65¢, it became evident by mid-year that continued absorption in Canadian dollars of losses incurred in DM's could not be considered. Although volume production of quality products had been accomplished in the year prior, and sales in excess of $3.5 Million were generated, the pressure on margins had become extreme. The increasing value of the Deutsche mark resulted in a decrease of export competitiveness, while at the same time the German home market became attractive to builders outside Germany. It became possible for us to deliver North American built yachts into the German market at a lower price, and with better margins than from our Kiel plant. Accordingly, the decision was taken to cease manufacturing operations in Kiel. A provision was established to provide for the costs expected to be incurred, and shareholders were so informed in the financial report for six months ended March 31, 1979. I can now further report that all employees related to the manufacturing operation have now been released or re-located to North America, nearly all assets have been liquidated except the plant itself and fixtures therein, and the provision for discontinuance of these operations as reported herein continues to be viewed as appropriate. No decision has been taken to dispose of the plant which is considered to be "moth-balled" at this time.

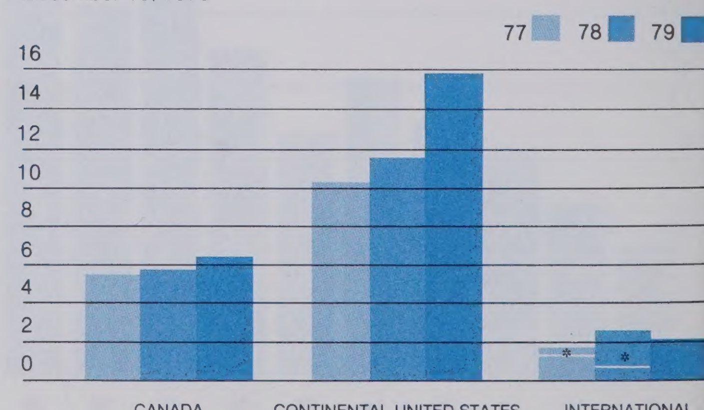
As a necessary part of the readjustment, new distribution agreements in Europe were negotiated during the year and existing dealer relationships were strengthened. Our products have received good acceptance throughout the Scandinavian countries and this large market is now handled through an aggressive distributor in Stockholm who has augmented C&C North American supply by the establishment of a builder in Sweden producing three C&C designs, these products having been transferred from the Kiel plant. Additionally, the export of design technology to other European builders continued, most notably with new models for Baltic Yacht in Finland.

Through our 10-year history which has spanned the 70s it was possible in the early years of the decade to develop pre-tax earnings of the order of 10% of sales. The rapid escalation of manufacturing costs in Canada experienced in the mid-70s caused margins to erode at a time when burdens of new plant construction and start-up costs had already been accepted. With the European venture now effectively behind us and the Rhode Island plant operating close to capacity, the burdens have been relieved at a time when revaluation of the Canadian dollar has offset high Canadian production costs and permitted reasonable margins to be generated once more on our high exports. Gross margin is again approaching the historic level at a time when sales can shortly be expected to top $30,000,000 per annum. We anticipate the market to continue strongly as knowledgeable buyers recognize the longevity and potential for appreciation existing in our products, coupled with release from the highways and minimal fuel consumption. High interest rates have not as yet been a deterrent to our category of buyer, presumably because the real rates are not excessive when discounted by the rate of inflation and when the borrowed funds are applied to a product whose value may be expected to keep pace. Of greater concern is the recognition that our basic raw materials derive from petroleum, and supplies and material costs are being closely monitored with memories of 1974 shortages and price escalations still fresh.

Through the restless seventies our shareholders have been exceedingly patient as we worked our way to our present position of industry prominence. The operating improvements accomplished in the last several years are expected to continue as we enter the 1980s with all segments of our operations busy and increasingly profitable. We are grateful for the continued support of our enthusiastic and skilled employees.

George H. Cuthbertson,
Chairman and Chief Executive Officer

December 10, 1979



Geographic Sales Breakdown: Factory Value ($ Million) *Sales manufactured by Kiel factory

Consolidated balance sheet as at September 30, 1979

ASSETS	1979	1978
		Restated (note 2)
CURRENT ASSETS		
Cash and term deposits (note 3)	$ 1,133,000	$ 116,000
Accounts receivable	2,282,000	1,561,000
Inventories (note 4)	5,319,000	5,598,000
Net current assets of discontinued operations (note 5)	283,000	866,000
Deposits and prepayments	35,000	129,000
	9,052,000	8,270,000
Net long term assets of discontinued operations (note 5)	—	288,000
Tax benefit available for application against future income taxes	217,000	—
Fixed assets (notes 6 and 9(a))	4,007,000	3,892,000
Other assets and deferred expenses (note 7)	362,000	397,000
Excess of cost of shares in subsidiary companies over net book value at date of acquisition	2,493,000	2,493,000
	16,131,000	15,340,000

LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (note 8)	2,674,000	3,100,000
Accounts payable and accrued liabilities	2,398,000	1,804,000
Deposits from customers	675,000	160,000
Long term debt due within one year	442,000	450,000
	6,189,000	5,514,000
Long term debt (note 9)	2,910,000	3,269,000
	9,099,000	8,783,000
Deferred income taxes	115,000	246,000

SHAREHOLDERS' EQUITY		
Capital stock (note 10)	5,089,000	3,987,000
Retained earnings	1,828,000	2,324,000
	6,917,000	6,311,000
	16,131,000	15,340,000

Signed on behalf of the board:

Robert Cart Director George H. Cuthbertson Director

Consolidated statements of earnings and retained earnings for the year ended September 30, 1979

STATEMENT OF EARNINGS	1979	1978
		Restated (note 2)
Sales	$26,214,000	$19,922,000
Cost of sales	21,451,000	16,680,000
Gross profit	4,763,000	3,242,000
Selling and administrative expenses	2,833,000	2,154,000
Interest expense—short term debt	373,000	175,000
—long term debt	405,000	512,000
Loss (profit) on translation of foreign assets and liabilities	63,000	(115,000)
	3,674,000	2,726,000
Earnings before income taxes and other items	1,089,000	516,000
Income taxes (note 11)	372,000	140,000
Earnings for the year from continuing operations before the following	717,000	376,000
Loss from discontinued operations (note 5)	(338,000)	(209,000)
Earnings before extraordinary item	379,000	167,000
Extraordinary item—provision for loss on discontinuance of European manufacturing operations (note 5)	(875,000)	—
Net earnings (loss) for the year	(496,000)	167,000
Earnings (loss) per share (based on average number of shares outstanding during the year of 1,069,000; 1978 of 991,000)		
From continuing operations	67 cents	38 cents
Before extraordinary item	35 cents	17 cents
For the year	(46 cents)	17 cents

STATEMENT OF RETAINED EARNINGS		
Balance—beginning of year	$ 2,324,000	$ 2,157,000
Net earnings (loss) for the year	(496,000)	167,000
Balance—end of year	1,828,000	2,324,000

Consolidated statement of changes in financial position for the year ended September 30, 1979

SOURCE OF FUNDS	1979	1978
		Restated (note 2)
Provided from operations—		
Earnings before extraordinary item	$ 379,000	$ 167,000
Items not affecting working capital—		
Depreciation and amortization	834,000	740,000
Tax benefit available for application against future income taxes	(217,000)	—
Deferred income taxes	(131,000)	(31,000)
	865,000	876,000
Net long term assets from discontinued operations held for sale	288,000	—
Proceeds on loans	23,000	—
Proceeds on sale of mortgage	—	252,000
Issue of common shares	1,102,000	34,000
Increase in net current assets of discontinued operations	—	50,000
	2,278,000	1,212,000

USE OF FUNDS		
Other assets and deferred expenses	—	56,000
Purchase of moulds and other fixed assets	937,000	665,000
Reduction of long term debt	359,000	437,000
Provision for loss on discontinuance of European manufacturing operations	875,000	—
	2,171,000	1,158,000
Increase in working capital	107,000	54,000
Working capital—beginning of year	2,756,000	2,702,000
Working capital—end of year	2,863,000	2,756,000

AUDITORS' REPORT TO THE SHAREHOLDERS

December 10, 1979

We have examined the consolidated balance sheet of C&C Yachts Limited as at September 30, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1979, and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand Chartered Accountants

Notes to consolidated financial statements for the year ended September 30, 1979

1. ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed by the company:

a) Principles of consolidation

The consolidated financial statements include the operations of all subsidiary companies except for discontinued operations in Europe which have been excluded. In consolidation, all material intercompany accounts and transactions are eliminated.

b) Foreign exchange

Assets and liabilities in foreign currencies are translated as follows:
Current assets and liabilities and net assets of discontinued operations at year end rates; long term assets and liabilities at rates prevailing at date of transaction; income and expenses at the average rate of exchange in effect during the year. The gain or loss arising from application of these policies is included in income.

c) Inventory valuations

Finished yachts and yachts in process are valued at the lower of cost and net realizable value. Raw materials and supplies are valued at the lower of cost and replacement cost with cost determined on the first-in, first-out basis.

d) Depreciation

The company depreciates the cost of its buildings, machinery and equipment over their estimated useful lives by annual charges to operations, using the reducing balance method at the following rates:

Buildings: 5 percent   Machinery and equipment: 20 percent   Automotive equipment: 30 percent

Mould costs are charged to operations over the estimated marketing life of the model on a straight line basis. Leasehold improvements are being depreciated on a straight line basis over the lives of the leases (approximately 10 years).

e) Research and development

Research and development expenditures are charged to income as incurred.

f) Excess of cost of shares

Excess of cost of shares in subsidiary companies over net book value at date of acquisition in 1969 is not being amortized as no diminution of value is believed to exist.

2. RESTATEMENT

The 1978 figures, including the figures presented in the notes to the financial statements, have been restated to exclude European operations in order to be comparable with 1979 presentation.

3. SHORT TERM DEPOSITS

Included in the cash balance are the proceeds to the company from the private placement of 350,000 shares which amounted to $1,102,000. The funds have been used, subsequent to September 30, 1979, to reduce bank indebtedness.

4. INVENTORIES	1979	1978
Finished yachts	$1,329,000	$2,528,000
Yachts in process	1,357,000	913,000
Raw materials and supplies	2,633,000	2,157,000
	5,319,000	5,598,000

5. DISCONTINUED OPERATIONS

In May, 1979, the company decided to discontinue manufacturing at Kiel, West Germany and accordingly, operating results of the West German subsidiaries have been segregated from the remainder of operations for the period to May, 1979, and for comparative purposes, for the year ended September 30, 1978. The provision of $1,326,000 less an estimated tax recovery of $451,000 is recorded as an extraordinary item. At September 30, 1979, manufacturing has been discontinued. Net assets remaining in Europe, stated on the basis of estimated recoverable value, are:

Cash	$ 96,000
Accounts receivable	285,000
Inventories	336,000
Fixed assets	1,127,000
	1,844,000
Mortgages	965,000
	879,000
Less: estimated provision for liabilities and possible future costs	596,000
Net assets of discontinued European operations	283,000

The mortgages are guaranteed by C&C Yachts Limited.

Operating results of the West German subsidiaries for the year ended September 30, 1978 and the period to April 30,1979 were:

	Seven months ended Apr. 30/79	Year ended Sept. 30/78
Sales	$ 772,000	$3,546,000
Cost of sales	720,000	3,116,000
Gross profit	52,000	430,000
Expenses	639,000	829,000
Loss before taxes	(587,000)	(399,000)
Income taxes	249,000	190,000
Net loss	(338,000)	(209,000)

6. FIXED ASSETS

	1979			1978
	Cost	Accumulated depreciation	Net	Net
Land	$ 385,000	$ —	$ 385,000	$ 338,000
Buildings	2,535,000	671,000	1,864,000	1,888,000
Machinery and equipment	1,548,000	881,000	667,000	722,000
Moulds	1,872,000	953,000	919,000	757,000
Leasehold improvements	250,000	78,000	172,000	187,000
	6,590,000	2,583,000	4,007,000	3,892,000

7. OTHER ASSETS AND DEFERRED EXPENSES

	1979	1978
Loan to shareholder trust	$ 114,000	$ 119,000
Funds in trust for service of Rhode Island debt	164,000	164,000
Unamortized financing costs	67,000	79,000
Other	17,000	35,000
	362,000	397,000

8. BANK INDEBTEDNESS

Bank indebtedness and bank loans are secured by general assignments of book debts, specific charges on certain fixed assets, and floating charge debentures over the remaining assets of the company and its subsidiary companies.

9. LONG TERM DEBT

			1979	1978
C&C Yachts Limited Term bank loan	Deutsche marks 497,000	(note 8)	$ 255,000	$ 316,000
C&C Yachts Inc. Rhode Island Port Authority 8% Industrial Revenue Bonds	US$1,385,000	a)	1,432,000	1,474,000
Term bank loan	US$ 717,000	(note 8)	735,000	940,000
C&C Yachts Manufacturing Limited Term loan—12%		b)	930,000	989,000
Total amount outstanding			3,352,000*	3,719,000
Less: due within one year			442,000	450,000
			2,910,000	3,269,000

*The long term debt in foreign currencies is translated at the rate prevailing at date of transaction. If the debt were translated at year end rates, the total amount outstanding would be $3,704,000.

a) In 1975, the Rhode Island Port Authority purchased land and constructed a plant for the company at Middletown, Rhode Island. The Authority financed the plant by the issue of bonds repayable in instalments over a 20 year period. C&C Yachts Inc. rents this facility on a net lease basis for annual payments sufficient to fully service the debt, and will purchase the facility for $1 on repayment of the debt. C&C Yachts Limited and C&C Yachts Manufacturing Limited have guaranteed the obligations of C&C Yachts Inc. under this agreement. Under terms of the financing agreement, an amount equal to one year's debt service is required to be deposited with the trustees. The capitalized value of the lease rights is included in fixed assets and the obligation in long term debt.

b) Secured by mortgage on land, buildings and equipment at that company's plants in Niagara-on-the-Lake and Oakville, Ontario, and a subordinated floating charge. Due June, 1982.

c) Principal repayment requirements on long term debt over the next five years are as follows:

	Cdn.$	U.S.$	Deutsche marks
1980	57,000	245,000	152,000
1981	57,000	250,000	152,000
1982	816,000	255,000	152,000
1983	—	177,000	41,000
1984	—	60,000	—
1985 and beyond	—	1,115,000	—
	930,000	2,102,000	497,000

10. CAPITAL STOCK

Authorized 2,000,000 shares without par value. Issued and fully paid 1,348,000 shares (1978-998,000).

In July, 1979, the company made a private issue of 350,000 shares at a net price of $3.15 cash per share.

11. DEFERRED INCOME TAXES

Deferred income taxes have been allocated on the Statement of Earnings as follows:

	1979	1978
Charged to net earnings from continuing operations	**$ 372,000**	$ 140,000
Credited to discontinued operations	**(249,000)**	(190,000)
Credited to extraordinary item	**(451,000)**	—
	(328,000)	(50,000)

Provision against net earnings from continuing operations for the year ended September 30, 1979, has been reduced by $69,000 resulting from the 3% inventory allowance.

12. LONG TERM LEASES

Annual minimum rental payments under long term leases for property and equipment (excluding insurance, property insurance and other occupancy charges) are as follows:

1980	$ 89,000
1981	145,000
1982	123,000
1983	122,000
1984 to 1989	715,000

13. REPURCHASE AGREEMENTS

The company participates in agreements with financial institutions whereby certain yacht dealers may finance the purchase of yachts from the company with these institutions. Under the terms of the agreements, the company is contingently liable to repurchase yachts for the outstanding balance of the debt should the dealer default on the obligation with a financial institution prior to the time that a yacht is sold to a retail customer. Total loans outstanding at September 30, 1979, were approximately $3,600,000 ($1,000,000 in 1978).

14. REMUNERATION OF DIRECTORS AND OFFICERS

Remuneration paid by the company and its subsidiary companies to the directors and senior officers (as defined by The Business Corporations Act) was $257,000 in 1979 ($260,000 in 1978). In addition, consulting fees of $61,000 have been paid in 1979 ($44,000 in 1978) to a company controlled by a director and senior officer.

C&C YACHTS

Corporate Information

Directors

Peter J. M. Bloemen
Erich K. L. Bruckmann
Michael F. K. Carter
George H. Cuthbertson, Chairman
J. Robert Forsey
Christopher D. Hyde
Robert R. Sale
Herman M. Smith
Bruce A. Sully

Officers

George H. Cuthbertson
President and Chief Executive Officer

Michael F. K. Carter
Vice-President, Finance
Secretary-Treasurer

J. Robert Forsey
Vice-President, Manufacturing
and Chief Operating Officer

David M. Gee
Vice-President, Marketing

Gordon W. Brinsmead
Vice-President

Erich K. L. Bruckmann
Vice-President

Irene P. Yersh
Assistant Secretary

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